

SPENDING AFFORDABILITY ADVISORY COMMITTEE REPORT

FISCAL YEAR 2023

FY 2023 Spending Affordability Advisory Committee (SAAC)

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Richard Clinch, Ph.D.
Lynn Coleman, Howard Community College *
Joan Driessen, Association of Community Services Howard County *
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Jennifer Mallo, Howard County Board of Education *
Leonardo McClarty, Howard County Chamber of Commerce
Steve Poynot (**Committee Vice Chair**)
Jahantab Siddiqui, Howard County Public School System *
Joshua Tzucker
**Non-voting member*

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Advisors (Government Officials)

Craig Glendenning, Howard County Auditor
Rafiu Ighile, Director, Department of Finance
Jennifer Jones, Deputy Chief of Staff
Patrick Pope, Internal Auditor
Lonnie R. Robbins, Chief Administrative Officer
Larry Twele, Howard County Economic Development Authority

**Howard County Maryland
Spending Affordability Advisory Committee
Report for Fiscal Year 2023**

March 1st, 2022

Purpose

County Executive Calvin B. Ball, Ed. D., renewed the Spending Affordability Advisory Committee (the “Committee”) through Executive Order in December 2021. The County Executive’s charge to the committee was to:

1. Review in detail the status and projections of revenues and expenditures for the County, not only for fiscal year 2023, but also for fiscal years 2024-2028.
2. Evaluate future County revenue levels and consider the impact of economic indicators such as changes in personal income, assessable base growth, and other data that the Committee considers applicable.
3. Evaluate expenditure levels with consideration of the long-term obligations facing the County, and the best way to pay for them.

The Committee shall present to the County Executive on or before March 1, 2022, a report including:

- a. Projected General Fund revenues for the upcoming fiscal year;
- b. Recommended new County debt (General Obligation bonds) authorization;
- c. An analysis of the long-term fiscal outlook including multi-year projections; and
- d. Other findings and/or recommendations that the Committee deems appropriate.

EXECUTIVE SUMMARY

To everyone's surprise, despite uncertain economic conditions, the County's revenues actually showed improvement during the pandemic. However, this unexpectedly strong performance is not sustainable in the long run. This unexpected growth was largely driven by temporary factors such as an extraordinary contribution of federal stimulus funding and strong performances by the stock and real estate markets. However, such above-historical-average growth during a time of unprecedented financial uncertainty, overwhelming health and safety challenges, and massive job loss is counter-intuitive and not a reflection of sustainable economic fundamentals, especially as local employment remains well below the pre-pandemic level. Corrections will likely follow when the effects of these one-time emergency efforts diminish and the lagging impact of an economic weakening emerges. A high level of uncertainty continues to surround the FY 2023 forecast and extends beyond near-term risks to the full recovery of business and employment, to include rising inflation, increasing interest rates, and hiring challenges across all sectors. The Spending Affordability Advisory Committee's (SAAC) concerns about the County's long-term fiscal outlook remain, informed by demographic and residential development trends that point to a likely slowdown in revenue growth that was already evident before the pandemic, and an actual General Fund revenue growth from FY 2017-2019 that averaged only 2.3% (\$25 million) per year.

The Committee feels that it must stress that a continuation of the strong revenue growth experienced during the pandemic is extremely unlikely and warns that there are not only high risks in the near term, but that underlying demographic and development changes create growth issues that will continue to impact the County's long-term fiscal outlook. This is not the time to loosen the reins of fiscal discipline or change the County's fiscally prudent approach. These are the very things which have helped the County weather both good and bad times. The County instead needs to strengthen its financial position and fiscal management, to prepare itself for continuing economic volatility and a bumpy revenue outlook over the next several years and focus on promoting and developing its long-term tax base.

Revenue Performance During the Pandemic

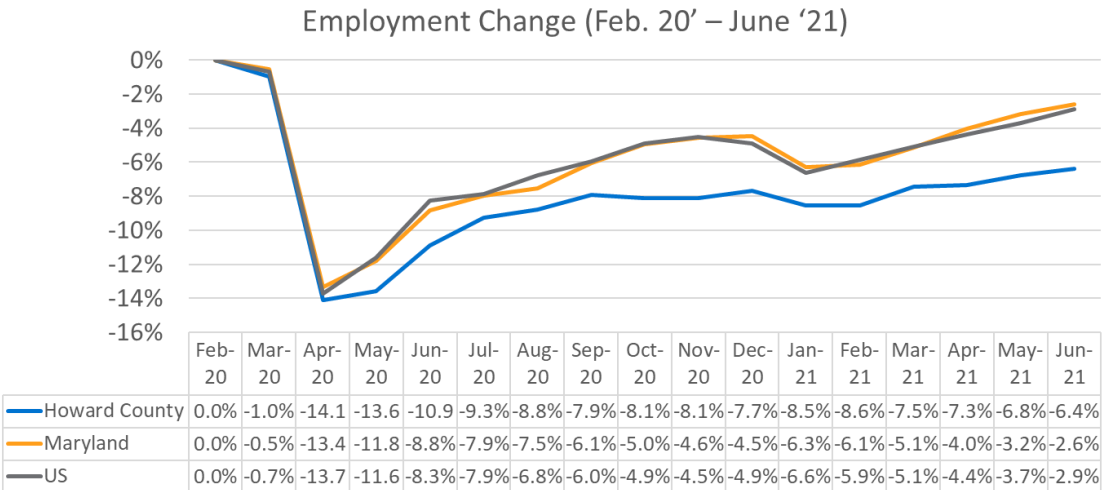
This year's Spending Affordability Committee Report comes just as Howard County appears to be exiting the third wave of the Covid-19 pandemic. Whether the County is entering a new "endemic" phase of the virus is a question best left to public health experts. The Committee's charge is to advise the County on the most prudent fiscal course to take, especially when it is still unknown how the changes brought on by the pandemic - from unprecedented financial support from the federal government to radical alterations in commuting, working, socializing, and shopping patterns - will continue to impact our lives after the pandemic.

Two years ago, the Committee's FY 2021 report was submitted to the County Executive and the County Council a week before the State of Maryland instituted emergency health and safety restrictions. That report, researched and written before the onset of the pandemic, expressed our continuing concerns that Howard County's transition from a "growth county" to a "maturing county" presented a host of economic challenges. Infrastructure built during our earlier growth phase needs replacement, while investment in new projects and investments is necessary to maintain the services and quality of life Howard Countians have come to expect. As a small county, we are in the end stages of developing our available land and must begin to focus on redevelopment. This affects our property tax base - both residential and commercial - and the years of outsized growth in property tax revenues have come to an end. Finally, an aging population means changes to our income tax base, as growth from rising salaries is replaced by proportionally more income from asset portfolios. All of these trends existed before Covid-19 and they persist today.

Yet, in the face of these continuing challenges, Howard County performed surprisingly well. In fact, rather than experiencing a dip in revenue growth, the County realized a completely unexpected spike over the last two years. However, this financial performance was not driven by real economic growth but by extraordinary measures outside the norm, including the federal stimulus. The federal response to the pandemic disproportionately favored the employment mix of Howard County’s population. The nearly \$5 trillion in federal spending was extremely favorable for communities with large numbers of federal employees and contractors. On the other hand, the Paycheck Protection Program, extended unemployment insurance, student loan repayment extensions, and other income supports provided unexpected income gains to the County’s small businesses and many others in our service sector. This federal largesse, coupled with government-sponsorship of artificially low interest rates, also drove a tremendous increase in short-term wealth gains for investment portfolios and real estate.

This revenue growth is largely driven by Federal stimulus as well as gains in the stock and real estate markets. Our local employment recovery continues to lag behind the Maryland average, and a return to more normal interest rates will slow (or even reverse) the growth in real estate and stock portfolio gains. Federal spending will necessarily lessen, and if control of Congress changes, this flow could diminish even more. And, the world waits to see when and if workers return to the office. Has work-from-home and shop-from-home become a new standard? If so, what does that mean to the County’s commercial real estate mix with its heavy focus on office and retail? Moreover, does an increased reliance on e-commerce present opportunities or additional economic challenges to a County with a limited industrial base.

Chart 1. County Employment Change During the Pandemic



The Committee recommends that the County take a balanced and prudent approach to distribution of the unexpected revenue growth realized over the past year. Yes, there are growing needs that the County must address, and to meet these, we recommend a limited increase in both spending and new bond authorization over that in our prior reports. At the same time, we strongly believe that the County must recognize that the warning trends identified and present before Covid-19 are still present. The relatively modest revenue windfall is almost entirely the result of the package of unique federal interventions provided to address the pandemic, and not the result of local policy changes or financial management improvements. The County has done a good job retiring much of its outstanding debt, but with so much economic uncertainty, now is not the time to begin accumulating new liabilities.

Long-Term Fiscal Challenges

The County continues to face critical long-term fiscal challenges. For FY 2023 and the past several years, agency and educational entity spending requests are significantly outpacing annual growth in revenues. The Howard County personal income projections and economic analysis prepared by the Jacob France Institute (JFI) at the University of Baltimore, included in the appendix of this report, reveals that ***“the County remains in the midst of a transition from historically rapid population and personal income growth to a “new norm” of slower growth.*** These lower population and personal income growth projections are based on changing development patterns in the County, most importantly, limited by the availability of developable land and a significant shift to more dense and multi-family-driven housing development. Moreover, ***the County’s employment base was significantly impacted by the pandemic and is lagging behind the State and peer jurisdictions in its recovery.*** Expected future patterns of development make continued growth in County expenditures and assumed debt less affordable.

The Committee applauds the County for exercising sound fiscal management practices in recent years, including authorizing less in new GO bonds, implementing strategies such as hiring freezes in County agencies to reduce expenses and limiting reductions in service, and increasing its fund reserve to improve its ability to cover unexpected emergencies or shortfalls. However, challenges remain on the horizon, and Howard County must keep to this prudent financial strategy and continue to exercise rigorous fiscal discipline. The County must continue to make the hard choices in prioritizing needs vs. wants, collaborate with stakeholders on long-term strategies to prioritize the needs of our community, and avoid increasing long-term liabilities at the cost of future services. The Committee remains concerned that continued growth in expenditures and debt will only exacerbate the growing gap between revenues and requested expenditures, leading to even more difficult choices in future years.

In the capital budget, for example, years of deferring the allocation of sufficient funds to infrastructure maintenance throughout the County (e.g., roads, storm water drainage, and systemic renovation of facilities, etc.) have created significant backlogs and deteriorating systems. These unmet operating costs ultimately turn into unavoidable capital projects (rebuilding/replacement), that place a long-term burden on future budgets. To sort out what are “the needs” among the competing requests will be a challenge, but given tight resource constraints, it must happen.

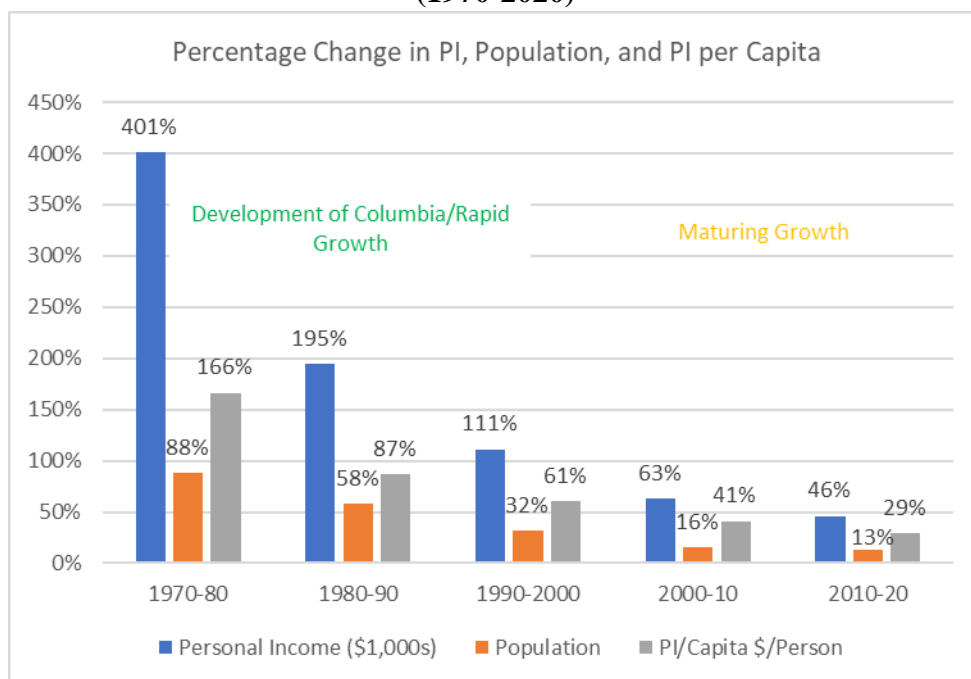
Fiscal gaps continue to grow in the operating budget and remain significant in the long-term capital improvement program (CIP) budget:

- **County Operating Budget:** Requested funding increases in FY 2023 by different agencies and entities is equivalent to 2.5 times that of projected revenue growth. Education entities’ requested funding growth alone add up to 1.7 times the entire revenue growth projected for FY 2023. Multi-year projections indicate that, without corrective action, the County will have accumulated annual income to spending request deficits of \$121 to \$288 million over the next six years. To close the widening gap between projected revenues and requested expenditures and live within our means will require significant reductions to requested expenditures.
- **County Capital Budget:** Funding requests for capital projects for FY 2023-2028 are approximately \$20~\$25 million higher than projected new debt capacity over the same period. Various debt indicators indicate that the County’s debt burden remains high, and one critical measure - annual principal and interest payments for financing capital projects as a share of total revenues – exceeded

the County policy ceiling of 10% for the first time in FY 2020 and is still increasing. A rising debt burden results in significantly less capacity to authorize new CIP debt in the future.

Howard County should embrace the economic reality of slower revenue growth as the new norm. As the County developed in the 1970s through the early 2000s, County population growth drove significant growth in personal incomes. This population and personal income growth translated into significant increases in income and property tax revenues. During this period, the County became accustomed to supporting the continuous expansion of services. As the County matured in the 2000s, however, population and personal income growth slowed (Chart 1) leading to slower growth in revenues, but requests for both operational and capital spending continued to expand. This led to the development of a structural deficit as revenue growth slowed, but the requests for spending grew. The County has adapted to this structural deficit with a series of short-term fixes, including reductions in needed investments in roads and other infrastructure. With the most recent recession and the declining inventory of developable land, slower revenue growth will continue into the future and this needs to be translated into reduced growth in annual spending.

Chart 2. County Personal Income, Population and Per Capita Personal Income Growth by Decade (1970-2020)

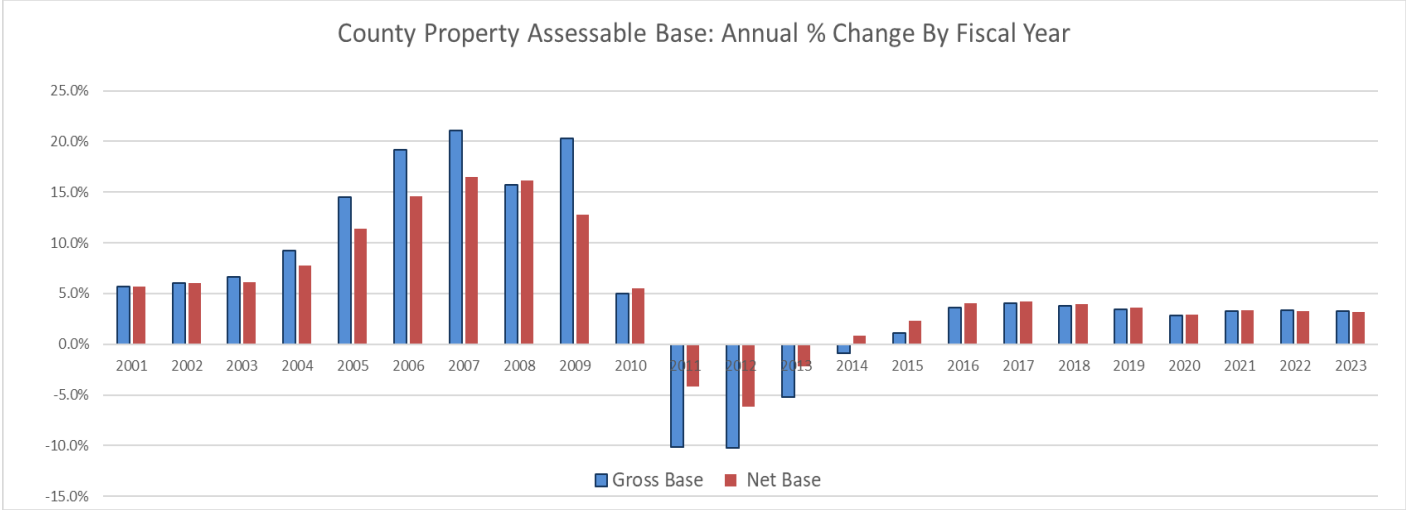


For years, the County managed to cope with the fiscal challenges caused by this slowdown in growth through the adoption of spending reduction strategies with relatively manageable service impacts (e.g., limiting training, initiating hiring freezes, and some efficiency gains through better use of information technology and process improvements). Additional steps have included delaying services, repairs, and purchases; using one-time measures (e.g., transferring and/or utilizing one-time funds to temporarily bridge the gap); and raising the school surcharge and transfer taxes, etc., in support of infrastructure projects.

Howard County needs to adapt to this pattern of slower revenue growth. There are only three concrete solutions: raising taxes, cutting spending and services, or growing the tax base. Raising taxes is difficult because our core taxes, income and property taxes, are already high relative to our peer jurisdictions. It is also largely not feasible with many residents and businesses still suffering the impact of the pandemic and in the process of recovery. Expanding our tax base is the optimal long-term strategy but will not address our current situation and is only a partial solution. As a result, if nothing is done, revenue growth will continue to lag demand for services and if the County fails to act, it could face significant spending gaps in the long term.

The County is at a crossroads. There are hard, and unavoidable, decisions that must be made for not only FY 2023 but also for the rest of the decade. The world is changing. The operations and fiscal planning of our County government need to change along with it. Our post-pandemic future will not be the same as our pre-pandemic past. The Committee encourages the County leadership to embrace these looming challenges as opportunities and work with all stakeholders to shape the future of our great County while maintaining sound financial stewardship.

Chart 3. County Property Assessable Base Annual % Change



KEY RECOMMENDATIONS

The Spending Affordability Advisory Committee (“Committee”) is tasked with making recommendations to the County Executive on revenue projections, General Obligation (GO) bond authorizations, long-term fiscal outlook, and County revenue and spending patterns. The Committee met from January 2022 through late February 2022. During that time, the Committee was briefed by economists, multiple County agencies, and local educational institutions. These meetings helped the Committee develop a better understanding of the County’s economic outlook, the needs of individual agencies, revenue sources, debt level, demographic trends, and economic development, as well as long-term fiscal projections and various operating and capital needs.

The following recommendations of the Committee reflect our collective input and a desire to assist the County in making the necessary decisions to address community priorities while staying within our means and ensuring the County’s long-term sustainability.

1. Projections of Revenue for FY 2023

The Committee recommends developing a budget below projected General Fund revenues of \$1.28 billion, excluding one-time resources, for FY 2023.

The County is required by law to adopt a balanced budget. The Committee concurs with the Budget Office’s projection for FY 2023 of \$1.28 billion in total General Fund revenues. This amount is largely comparable with FY 2021 actual revenues and represents an increase of 6.6% (\$79.8 million) over the FY 2022 budget. Of the growth, about half is attributable to a higher-than-expected base in the current year, thanks to federal stimulus and other factors that positively impacted key revenues thus far but are unlikely to be sustainable. ***The Committee recommends that the County not fully spend projected revenues in FY 2023 on recurring items and limit new recurring expenditures.***

- Property Tax, the largest revenue source (49%) of the County’s General Fund, will maintain moderate but improving growth with assessments projected by the State Department of Assessment and Taxation to grow by 3.3% in FY 2023. The growth will benefit from a strong housing market, which is partially offset by a weakening in commercial-property assessments, while the triennial reassessment cycle in Maryland will smooth out the annual changes over several years.
- Income Tax, the second largest revenue source (42%), showed an average five-year annual growth of 3.4% per year before the pandemic. During the pandemic, however, County Income Tax receipts experienced double-digit increases (10.6% in FY 2021 or three times the historical average) rather than a weakening as predicted based on historical recession experience. The temporary strong performance is primarily attributable to federal stimulus and a strong stock market, which is unsustainable given the still struggling local economy, with employment at 6-7% below pre-pandemic levels. In addition, due to the timing of income tax filing, reconciliation, and distribution by the State, some of the expected negative adjustment may not be felt until FY 2023 or later.

This historically high level of growth is unsustainable and features many uncertainties. The historically strong year-to-year revenue growth is largely driven by an unexpectedly strong performance or artificially elevated base during the pandemic, primarily driven by temporary measures such as the sizable federal

stimulus packages and a strong stock market. The Committee wants to caution that such a spike is unsustainable. In addition, the forecast for FY 2023 will continue to experience numerous challenges related to the pandemic as well as the timing and scale of potential economic corrections or lagging impacts that could follow the counter-intuitive revenue spikes at odds with the economic reality experienced during the pandemic.

The Committee recommends that the County not fully spend projected revenues in FY 2023 on recurring items and limit new recurring expenditures. The County should consider allocating meaningful funding to contingency or one-time non-recurring expenditures to avoid potential interruptions of services related to potential economic shocks. Also, efforts should be taken to limit new programs and new positions in FY 2023 based on this temporary and unsustainable strong revenue performance. Such new recurring expenditures, once initiated, will stay in the base even if the budgeted resource or required resource growth is no longer available, which could add to the challenges in future years.

The County has to close a projected fiscal gap of \$121 million between requested expenditures and projected revenue increases and produce a balanced budget. Despite historically high projected revenue growth in the FY 2023 budget, the County faces a significant fiscal gap. Current projections reveal a funding gap of nearly \$121 million in FY 2023 (compared to a predicted gap of \$36 million about this time a year ago for FY 2022). Requested funding increases of \$200.6 million from education entities and County agencies exceed projected revenues by \$120.8 million. The County must approve a balanced budget each year. Expenditure requests from all entities must be reduced significantly to reconcile with projected revenues. County government should continue candid dialogue with all stakeholders to manage expectations of wants vs. needs and urge different entities to develop plans based on fiscal realities and impact of continuing pressures on existing infrastructure.

Chart 4. FY 2023 General Fund Projected Revenue Growth vs Requested Funding Growth

\$ in Millions	FY 2023
Revenues - Projected Growth from FY 2022 Budget	79.8
Requested Expenditure (County Funding) Growth	
HCPSS (excluding \$12.5M one-time County funding in FY22)	129.1
HCC + HCLS	7.3
Debt Services (non-discretionary)	16.2
All Other Agencies (including funding to non-profits etc.)	48.0
Expenditures - Requested Growth from FY 2022 Budget	200.6
Gap	(120.8)

2. A Recommended Level of New County Debt Authorization

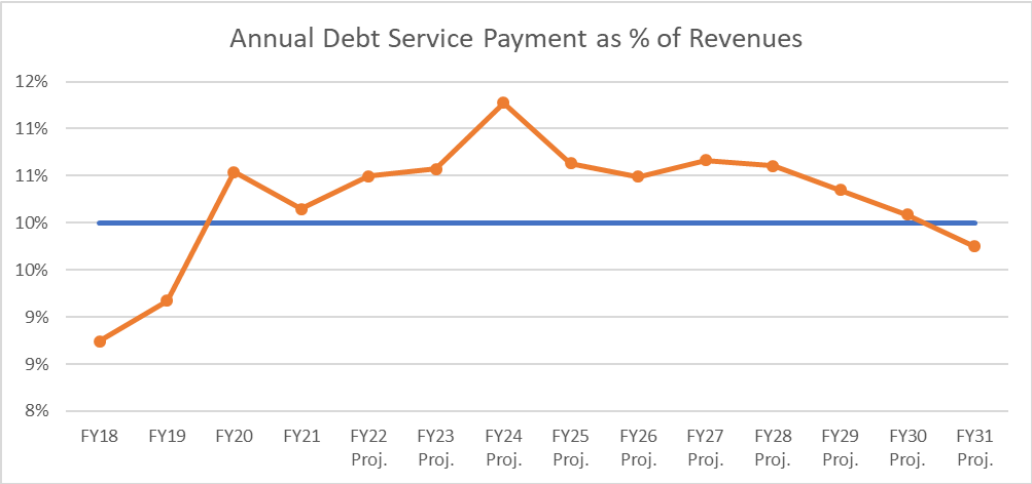
The Committee recommends new authorized GO bonds in FY 2023 total no more than \$65 million.

The Committee recommends that the County limit its new GO bond authorization to no more than \$65 million in FY 2023 and strengthen its debt control strategies, based on continuing concerns about the

County’s growing overall debt and its shrinking capacity to take on new debt. The Committee is pleased that the County has reduced its annual new GO bond budget for four years in a row, with authorized new debt set at a historically low level of \$72.5 million in FY 2022. The Committee wants to acknowledge the efforts by the County in recent years to slow the growth of new debt and encourage its continued efforts in debt control.

The County must manage its debt burden to avoid crowding out the capacity in its operating budget to support various service priorities. This action is also important to preserving the County’s AAA credit rating, allowing the County to borrow at the most favorable terms and maintaining its standing as an efficient and well-managed governmental body. In fact, Standard & Poor’s (S&P) cited the County’s commitment to “...continue to monitor and adjust for potential anticipated multiyear revenue loss going forward,” in their recent justification for awarding Howard County another AAA bond rating. Despite some improvement, debt burden measures continue to escalate in general. Specifically, in FY 2020 and FY 2021, debt service payments as a percentage of total revenues exceeded the County policy ceiling of 10% and is projected to stay above 10% in the next several years. A higher debt burden increases the County’s long-term liabilities with increased spending obligations for future budgets. A growing share of the total funding designated to debt service payments also means fewer resources available in the annual budget to support all other needs.

Chart 5. Annual Debt Service Payment As a % of Revenues



Note: projections were modeled by Finance Department based on existing debt schedule, projected future issuance of authorized by unissued debt, and assumptions of \$75-\$90M new GO bonds authorized in FY 2023 and beyond, and a 4.5% interest rate

County capital budget and long-term plan must be kept in line with fiscal reality and debt capacity. The total new GO debt requests received from agencies and education entities for the FY 2023-2028 capital budget averaged \$95.1 million per year. This suggests an annual funding gap of \$20~\$25 million based on approved new GO authorizations of \$72.5-\$75.2 million per year in the last two years. The County needs to work with all stakeholders continuously and bring the annual capital budget and the long-term capital plan in line with affordable resources.

The Committee encourages the County to assess needs vs wants and invest in infrastructure maintenance. While the community has competing infrastructure needs, including various new projects, the pressing maintenance needs for aging infrastructure cannot be overlooked – roads and sidewalks, storm water drainage, and renovation of existing buildings. The Committee applauds the County for increasing the

investment and securing sustainable multi-year investment in road resurfacing and systemic renovation in the school system, etc. to start addressing the accumulated backlog of required maintenance. Such an investment is not only important but also saves the County in the long run to avoid even more costly solutions (e.g., replacement and reconstruction) if intermittent patching and fixes are not performed in a timely manner

3. Long-Term Fiscal Outlook and Issues

The Committee recommends a revenue projection of 3.4% growth on average during FY 2024-2028.

A preliminary multi-year projection developed by the Budget Office suggests that General Fund revenues will likely grow by 3.4% on average annually during FY 2024-2028. This is an increase over prior projections, driven primarily by the smoothing impact of Maryland’s triennial assessment cycle resulting in a strong housing market over the next several years. Future growth is contingent upon multiple variables which include: the pandemic impact, the economic recovery, the stock market, federal and State policies, the potential impact of local regulatory changes, and long-term development and demographic trends (such as an aging population and a residential development shift to multi-family units). Given the high uncertainty of these factors, the multi-year revenue outlook is uncertain.

The Committee recommends that the County be prudent and develop long-term spending plans based on less spending growth than projected revenue growth level.

The County also needs to collaborate with all stakeholders to close a sizable and growing anticipated funding gap in the next six years. The latest multi-year model, based on input from all departments, agencies, and education entities, demonstrates that projected expenditures will continue to exceed projected revenues significantly every year for the next six years. The annual deficit is projected to range between \$121 million and \$288 million. Without corrective action, the cumulative structural deficit is projected to grow to \$553 million by FY 2028.

Chart 6. Preliminary Multi-Year Projections – Revenues vs. Expenditures

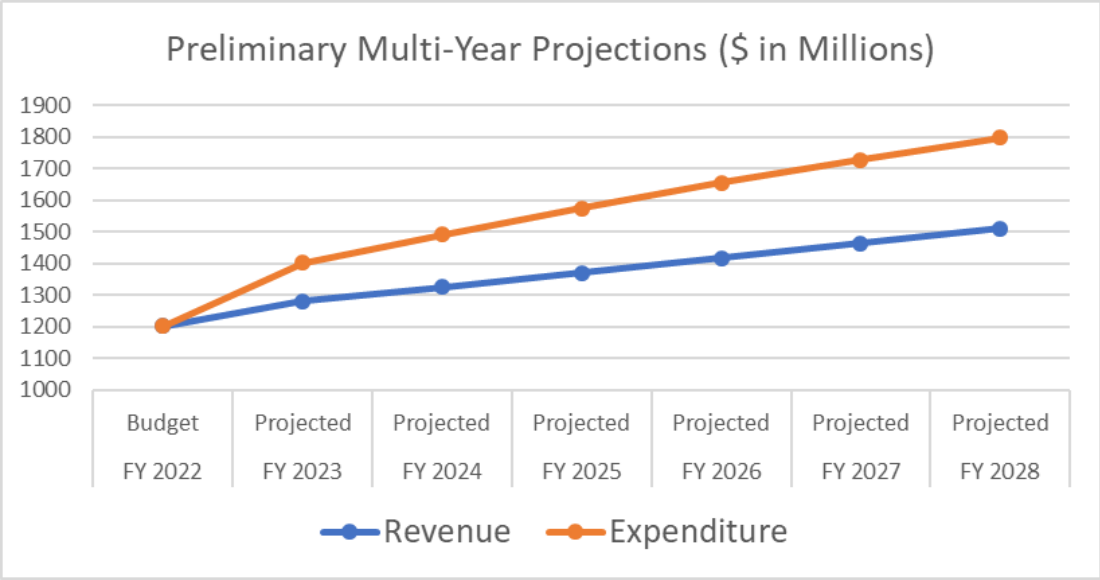


Chart 7. Preliminary Multi-Year Projections – Revenues, Expenditures and Gap

Preliminary Multi-Year General Fund Projections Excluding One-Time (\$ in Millions)								
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Six-Year Growth
	Budget	Projected	Projected	Projected	Projected	Projected	Projected	from FY22 Base
Revenue	1201.4	1281.2	1325.4	1371	1416.3	1463.2	1511.7	310.3
Growth %		6.6%	3.4%	3.4%	3.3%	3.3%	3.3%	
Expenditure	1201.4	1402	1491.5	1574.6	1655.8	1728.2	1799.5	598.1
Growth %		16.7%	6.4%	5.6%	5.2%	4.4%	4.1%	5.1%
Gap	-	(120.8)	(166.1)	(203.6)	(239.5)	(265.0)	(287.8)	
Accumulative Gap	-	(120.8)	(286.9)	(369.7)	(443.1)	(504.5)	(552.8)	

The County is required by law to balance its annual budget and close any funding gaps. Thus far, the County has largely exhausted saving strategies with manageable service impacts and implementation of one-time spending adjustments. Additional revenue options, if considered, would be difficult in the current environment, given the already high tax burden in the County as well as the large number of residents and businesses still in the process of recovery from the pandemic impact. Both the County and education entities have to focus on prioritization of need and development of sustainable long-term plans based on fiscal reality.

4. Other Recommendations that the Committee Deem Appropriate

4.1. Operating Budget

- Increase County Fund Balance to 15% or More:** The Committee recommends that the County adopt a policy to gradually increase its reserve (including stabilization and policy reserves) to 15% to make it more comparable with other AAA-rated local governments and further enhance its capacity to protect against future risks. The Committee also recommends setting aside or saving at least 50% of any prior year surplus to build reserves, limiting that which could be used in the following fiscal year. As of FY 2021, the County accomplished its policy goal of funding a 10% reserve by combining the Charter-mandated stabilization account (7%) and the policy reserve (3%). Before the pandemic, the County was on course to fund a policy reserve on top of the County Charter-mandated 7% Rainy Day Fund. During the pandemic, the County temporarily dipped into its policy reserve to minimize service reductions but then replenished its policy reserve and reached its goal of holding a 10% total reserve to hedge against potential economic challenges and unforeseen risks. This increased reserve was viewed positively by all three credit rating agencies. As the County heads into an uncertain economic future with multiple unknowns, it is important that the County preserve and boost its policy reserve continuously to be able weather any future crisis without drastic service cuts.
- Use One-Time Funding Only for Non-Recurring Expenditures or to Generate Long-Term Savings:** The County should commit to limiting the use of one-time funding to only non-recurring expenditures. Covid-19 grants and other one-time grants received by both the County and education entities need to be spent on non-recurring expenditures only, so as not to obligate the County to take on additional costs in its General Fund when such grants are depleted. The County Charter requires that allocation of prior year surpluses (PAYGO) be limited to one-time expenses, except in an emergency requiring County Council approval. Such a principal should also be applied to other

unsustainable revenue sources, such as an unexpected bump in revenues from capital gains, a one-time inflow of funds from delayed tax code reconciliation, and/or transfers from other funds. Using one-time funding to support on-going expenditures that increase the operational base creates a deficit before the next fiscal year even starts, exacerbating funding challenges in the following years, when the one-time funding is gone but the expenses – increased even more by inflation - remain. In addition, the County should try to use one-time funding to reduce long-term costs, such as using cash PAYGO to fund infrastructure needs and/or reduce new debt issuance and associated interest costs; or making one-time investments that can generate on-going permanent savings.

- **Balance Service Needs as A Full-Service County:** Howard County is a full-service jurisdiction that needs to balance service needs across the community. For the foreseeable future, the County needs to focus on continued assistance to residents, businesses, and organizations impacted by the pandemic and economic downturn. While employment has improved from the bottom hit in April 2020, it remains 6-7% lower than the pre-pandemic level. Nonprofits, which played a critical role in assisting impacted residents in the County throughout the pandemic and were already under pressure even before the pandemic, deserve increased investment and support from the County to help provide needed services to residents and mitigate increased challenges posed by not only the pandemic but also minimum wage impact and recruitment difficulties. Such a valuable partnership and a robust nonprofit community, not enjoyed by many other jurisdictions, save the County from providing services directly at a potentially much higher cost. Businesses, which play a key role in promoting employment and the commercial tax base of the County, also need continued support for recovery. In the long run, the County also needs to proactively allocate more resources to address rising demographic challenges with long-term implications, including a rapidly aging population with reduced income and increased demands for assistance and services.
- **Limit Above-MOE-Level Funding to HCPSS:** Each year, nearly two-thirds of the County's total General Fund are spent on education entities. Direct appropriation to HCPSS alone, excluding County funding used to finance capital projects for school construction and systemic renovations and contributions to HCPSS retiree health benefits, typically constitutes 50-52% of the General Fund budget. HCPSS is among the school districts with the highest annual investment per student in the State and the nation (No. 5 in 100 largest school districts in USA, according to Census Bureau). While education should remain one of the top priorities of the County, it worth noting that any local funding to HCPSS above the State-mandated MOE (maintenance-of-effort) amount in a given year will increase the base for calculating future years' annual obligatory County funding of MOE going forward.

All entities, including HCPSS, should prioritize needs and develop annual and long-term plans based on fiscal reality and focus on results rather than the amount spent. The Board of Education's FY 2023 budget proposal requested a County funding increase to HCPSS of \$129.1 million in FY 2023, more than 1.7 times the total projected revenue growth available to support all public services in the County. HCPSS' preliminary multi-year projections also reflect a \$50-\$60 million annual increase in County funding for the next few years, nearly double the projected growth of total County revenues over that period.

The Committee also suggests that the HCPSS work in collaboration with the State to clarify and reconcile projections of the long-term fiscal impact of phased implementation of the Blueprint for Maryland's Future ("Blueprint") legislation. Currently, a significant discrepancy exists between the

fiscal impact of Blueprint implementation reported in the State Department of Legislative Services' (DLS) published analysis and that presented by HCPSS. The DLS projected \$0 in unfunded mandates to Howard County in the next 10 years as a result of Blueprint implementation in its January 2022 report "Local Fiscal Impact of Implementing the Blueprint for Maryland's Future", while HCPSS' multi-year projections included in the Superintendent's proposed budget showed more than \$161 million in unfunded mandates or increase over the FY 2022 base in the same timeframe. Further communication between HCPSS and the State to provide additional clarification is needed to help understand the near-term and long-term fiscal impact of the Blueprint.

- **Explore Revenue Options While Managing Tax Burden and County Competitiveness:** The County has passed a variety of legislation in recent years designating increased resources (School Surcharge and Transfer Taxes, etc.) to specific infrastructure projects and related services. The County should explore revenue options on a regular basis (e.g., Recordation Taxes and various fees) to identify where opportunities for savings or cost recovery exist but should weigh such decisions against an increase in the overall tax burden to avoid damaging the County's regional competitiveness or its attraction to residents and businesses that are critical to maintaining and growing its long-term tax base.
- **Promote the Commercial Base:** Both economists and the Howard County Economic Development Authority (HCEDA) indicate that when compared to residential properties, the commercial base typically generates more net fiscal benefits (revenues generated less the cost of services delivered). Boosting commercial-base development is one of the most promising strategies to help rebalance the expenditure needs and fiscal resources of the County. The updating of the County's General Plan (HoCo Design) needs to promote rather than slow down the growth of the County's tax base and increase the net fiscal impact to the County in the long run. Recognizing that the County has limited greenfield development sites available, the updated General Plan should encourage redevelopment and commercial growth in defined employment centers. The County must continue to provide needed assistance to local businesses and work to improve the County's business environment. An efficient and predictable development process is critical to sending the message that the County welcomes investment. Moreover, legislation that adds an undue cost burden relative to neighboring jurisdictions or hinders local development will force investors to look elsewhere. The Committee suggests the County, working in collaboration with EDA and business partners, explore options to improve the County's competitiveness in attracting and retaining businesses. Such steps can facilitate the long-term growth of its business community and commercial base.

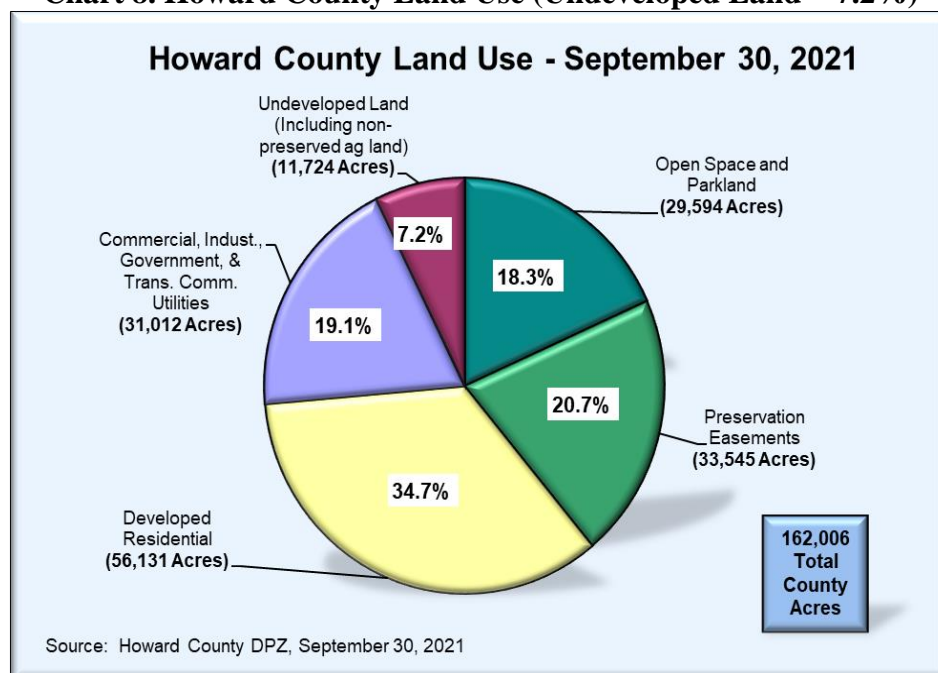
4.2. Long-term Planning

- **Multi-Year Projections and Strategic Planning:** In recent years, the County has developed a multi-year projection of both revenues and expenditures, incorporating input from all stakeholders of revenues such as County agencies, the HCPSS, the HCC, and the HCLS. These projections, however, revealed an increasing gap between projected revenues and requested expenditures – between \$121 million and \$288 million per year in the next six years based on the latest exercise. While acknowledging the County's efforts and progress in multi-year planning, the Committee believes that it is time for the County to work with all stakeholders and develop a realistic and sustainable long-term fiscal plan that matches expenditures with projected resources. This requires dialogue with all stakeholders, including education entities, to prioritize collectively and understand the implications of any tradeoffs. It also requires connecting different plans together – the operating budget, the capital

budget, the general plan, and existing and planned legislative changes with long-term fiscal impact, etc. This is not a light undertaking but is needed in order to move towards a sustainable and predictable long-term fiscal plan.

- **Ensure General Plan Is Connected with Fiscal Plan:** The County is currently in the process of updating its General Plan. The Committee believes that this effort is especially significant as the County is in a period of transition from growth to sustainable maintenance - a natural evolution as a community matures. The inventory of undeveloped land has dropped to 7.2%, so the County will no longer benefit from the strong population and development growth that was characteristic of years past. Slowed growth means an associated reduction in the growth of personal income and property tax revenue. The community must adapt to a more gradual growth era and undertake smart planning decisions that include focusing on redevelopment and vertical construction.

Chart 8. Howard County Land Use (Undeveloped Land = 7.2%)



Moreover, what has worked for the County in the past will no longer work moving forward; and the post-pandemic development needs will not be the same as pre-pandemic needs. In developing the General Plan, the County should focus on designing it to support long-term strategic priorities and improve the County's fiscal outlook, taking into full consideration housing, demographics, employment, land use, mobility, and business trends. This could mean considering adopting zoning laws that allow for more commercial development, reexamining height restrictions, or even reassessing parking ratios as we have seen more people logging-in rather than driving to their jobs. Addressing how acres of parking lots can be repurposed for vertical redevelopment providing new economic opportunities will be important in the years to come. Priority should be given to protecting existing commercially-zoned land, designating new parcels of land for development, and providing incentives to encourage redevelopment and parcel assemblage. We also recommend taking into consideration potential long-term or permanent changes in work and life patterns that will inform and potentially reshape the types of development that will flourish in the County over the next decades.

4.3. Capital Budget

- **Prioritize Annual CIP Budget to Address On-going Maintenance Needs and Backlogs:** The Committee recommends focusing on maintaining existing infrastructure and is pleased that the County has strengthened its investment in infrastructure maintenance in line with the Committee's prior-year recommendation. Last year, agency presentations revealed an increasing and alarming gap between annual maintenance funding and the associated capital investment necessary to maintain existing infrastructure across the County. Road resurfacing was a prime example, with the inventory of the roadwork backlog exceeding \$51 million as of 2020. In the FY 2022 budget, the County increased its investment in road resurfacing to \$10 million from the average of \$5.6 million in the last decade. In addition, the County's FY 2021 Annual Comprehensive Financial Report set aside \$60 million in fund balance to provide sustainable investment in road resurfacing in the next few years as well as to keep critical capital projects (such as the Ellicott City Safe and Sound project) on schedule though cash PAYGO to mitigate the County's debt burden. It also assigned \$30 million in fund balance to support HCPSS systemic renovation projections over the next few years. Such strategies will help alleviate the historical backlog gradually and avoid potentially higher costs associated with major structural repair and replacement.
- **Use Designated Resources to Lower General Fund Debt Burden Rather Than Add Projects:** In the last two year's reports, the Committee recommended that "new or enhanced funding designated for capital projects be applied to reduce the total debt supported by non-designated funding in operating budget funds, rather than be used to increase new debt or expand capital projects." The Committee compliments the County for reducing its new GO bonds authorization in the FY 2022 capital budget from prior years' levels and encourages a continued slowdown of new bond authorization by leveraging designated resources to mitigate the net growth of debt service payments. Keep in mind that each new project or addition/expansion not only adds to required debt service payments, but once completed, brings with it an increase in the initial annual operating budget for staffing, operations, and maintenance and each budget going forward. With the overall debt capacity shrinking, failing to use enhanced revenue options strategically to mitigate the burden on the annual operating budget further limits future debt funding.
- **Account for the Operating Budget Impact of All Capital Projects in the Annual Operating Budget and Multi-Year Planning:** The Committee is pleased that the County already included an estimate of operating budget impact (staffing, operating and maintenance costs, and debt-service payments) of planned CIP projects in most instances (except HCPSS projects) in both its FY 2022 CIP budget book and its multi-year operating budget expense projections. The Committee recommends that the County urge other entities, including HCPSS, to provide such information as well. Such analysis must be included in the annual discussion and decision-making related to the capital budget; otherwise, the associated impact of additional annual costs in the operating budget can easily be overlooked and use up the capacity to fund other necessary services in future years.

4.4 Other

- **Standing Committee:** The Committee would like to thank all speakers for their contributions to the nearly 20 briefings delivered to the Committee, providing extensive information and significant detail about the achievements and budgetary needs of their agencies, organizations, and entities, throughout January and February. Still, the Committee would like to renew its recommendation to make the Committee a standing committee in order to remain informed about the County budget and economic-related decisions throughout the fiscal year.
- **Outreach and On-going Meetings:** In some years, members of the Committee met with various County organizations, businesses, and the media to engage and educate the public regarding the County's financial health and the challenges it faces, such as those cited in this report, and seek their input regarding potential options and solutions. The Committee recommends that the County and the Committee collaborate in strengthening efforts to educate the public on the County's long-term fiscal outlook and continuing challenges.

We would like to thank all the Committee members for their time and effort in providing invaluable perspective, insight, questions, and contributions that will inform County decision-makers as they tackle today's challenges and opportunities and prepare for the future. We also want to thank all the presenters who shared critical information and informed analysis with the Committee.

II. APPENDIX - DETAIL / BACKGROUND

1. Economic Outlook

The Howard County Budget Office retained the Jacob France Institute (JFI) at the University of Baltimore to prepare a County personal income projection through FY 2023 and a report on overall national, State, and regional economic trends and their expected impact on the County's economy and government finances. This report was prepared to provide personal income and economic data to inform the Committee in their review. The key findings of this analysis are as follows:

Key Finding #1: While the impacts of the Covid-19 pandemic on County revenues were less severe than initially anticipated, the County is still recovering and has not yet reached pre-pandemic levels of employment or workforce participation.

- Maryland and Howard County were more severely impacted by the pandemic-related economic slowdown than the nation and have and are expected to continue to lag the nation in the ongoing recovery.
- The County's labor force declined by more than Maryland and the number of employed residents fell in the pandemic slowdown.
- After being one of the fastest growing counties in job growth in 2014-19 (5th highest in job creation and 3rd in growth), the County experienced a larger decline in employment in 2019-20 than the State of Maryland and most county peers and is lagging in job growth in the first six months of 2021.

Key Finding #2: The County remains in the midst of a transition from historically rapid population and personal income growth to a "new norm" of slower growth.

- While the County's real estate market remains strong and permitting activity has recovered, the County is running out of developable land and the share of multi-family dwellings in residential permitting activities has increased dramatically.
- Howard County will need to adapt to a fundamental change in real estate conditions that will impact both residential and employment growth. As the inventory of available land is declining, development activity will need to shift to more dense types of development. This will impact the pace and patterns of development, residential and employment growth. As a result, future growth in incomes and government revenues is likely to be slower than in the past.

Key Finding #3: While current projections are for the County to have stronger than historical levels of revenue growth in the coming year, personal income growth is expected to slow in FY 2023 and caution remains warranted in near and long-term fiscal planning.

- Based on the JFI's *Personal Income Projections* - County personal income is projected to grow by 5.9% in FY 2021 but then fall to 3.2% growth in FY 2022 and 2.5% in FY 2023 before returning to historical growth rates of over 4% in FY 2024-2026. On an annual basis, County personal income is projected to grow by 5.9% in 2021, by less than 1% (0.6%) in 2022, before returning to historical growth rates of over 4% in 2023-26; and

- While County personal income growth is projected to return to historical norms in 2023 under current conditions; there is considerable uncertainty in economic projections at this time, given the uncertain timing and impacts of reductions in national expansionary economic policy and the transition to more restrictive monetary policies in light of existing inflationary pressures.

National Economy

The national recovery from the Covid-19 pandemic is continuing with a recovery to pre-pandemic employment levels in 2023. Real Gross Domestic Product (GDP) recovered in 2022, growing at an annualized rate of 6.9% in the fourth quarter of 2022, up from an annualized rate of 2.3% in the third quarter when the Delta variant hit, and returning to the more than 6% annualized growth in the first two quarters of the year (6.7% in the second quarter and 6.3% in the first quarter). According to the U.S. Bureau of Economic Analysis (BEA), “Real GDP accelerated in the fourth quarter, increasing 6.9 percent after increasing 2.3 percent in the third quarter. The acceleration in real GDP in the fourth quarter primarily reflected an upturn in exports, accelerations in private inventory investment and PCE, and smaller decreases in residential fixed investment and federal government spending that were partly offset by a downturn in state and local government spending. Imports accelerated.”¹ National trends since 2007 in real GDP are presented in Table 1 and employment in Table 2, and while real GDP has exceeded pre-pandemic levels, employment remains below pre-pandemic levels and is not expected to fully recover until 2023.

- Moody’s Economy.com forecasts that U.S. real GDP will grow by 4.3% in 2022, and 2.3% in 2023, 2.8% in 2024 and 2.5% in 2025; and U.S. employment is projected to grow by 4.0% in 2022, 1.5% in 2023, 0.8% in 2024, and 0.4% in 2025.
- The December BRE report projects growth in U.S. real GDP of 4.3% in 2022 and 2.6% in 2023 with non-agricultural employment increasing by 3.8%, and 1.4% respectively.

State Economy

Maryland has and will continue to lag the nation in the recovery. According to Moody’s “Maryland’s recovery will proceed at a steady pace. A complete employment recovery will lag the nation’s by about a year because of slow population growth and drivers that are somewhat insulated from the broader business cycle, such as healthcare and the federal government. A strong base of high-wage employment will support consumer industries and the housing market. Long term, MD will be an average performer.” Unlike the previous two downturns and recoveries, federal spending is not driving Maryland’s recovery. According to Moody’s, “Federal government will not lead the way out into the next expansion, as in the last business cycle, but will persist as a pillar of MD’s economy. Nationwide, federal employment gains are set to slow in the wake of discretionary spending buildups during the Trump administration.”²

As presented in Chart A-1, the Maryland and Howard County unemployment rates have been below the national average nearly continuously since 2001; however, Maryland’s unemployment rate is now slightly above the national average. Howard County’s unemployment rate of 4.2% is well below the Maryland (5.6%) and national (5.4%) rates; however, as will be described below, Howard County’s workforce contracted more than the State or nation’s workforce in 2020 and 2021. After outpacing the nation nearly

¹ <https://www.bea.gov/news/2022/gross-domestic-product-fourth-quarter-and-year-2021-advance-estimate>.

² Moody’s Analytics Maryland Forecast, purchased for this report.

continuously since 2001, Howard County experienced larger job losses than both the State and nation; and personal income growth in the County lagged the nation for four of the past five years (Chart A-2).

Chart A-1: Unemployment Rate – U.S., Maryland, and Howard County

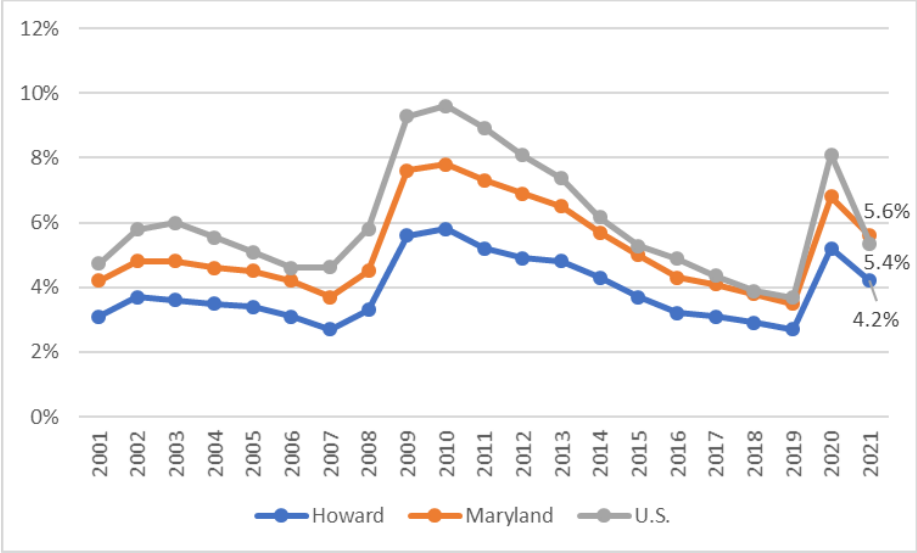
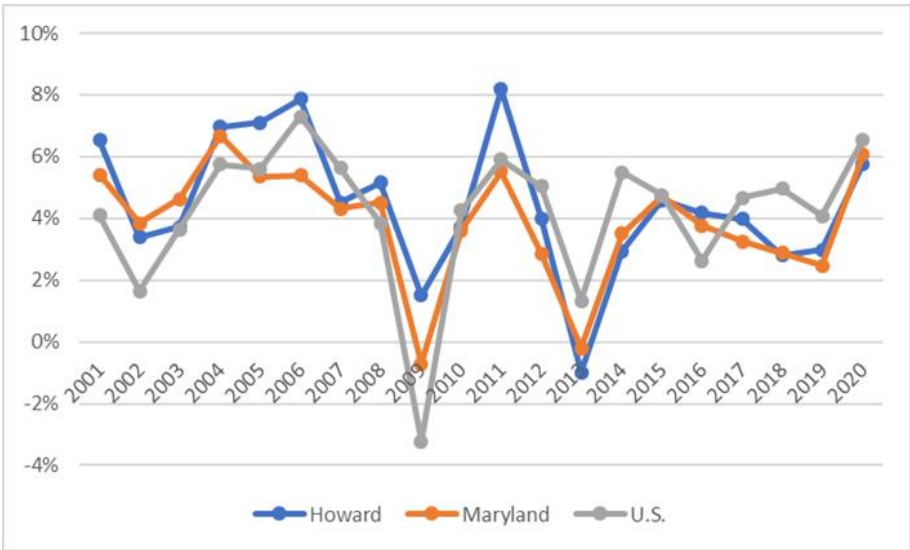


Chart A-2: Personal Income Growth – U.S., Maryland, and Howard County



- Both Moody’s and the Board of Revenue Estimates (BRE) are projecting slower than national growth in Maryland:
- The BRE forecasts Maryland employment to grow by 2.8% in 2021, with stronger growth of 3.5% in 2022, then falling to 1.6% in 2023, and less than 1% in 2024 and 2025. The BRE forecast is for Maryland personal income to increase by 6.2% in 2021, falling to 1% growth in 2022, and then return to better than 4% growth in 2023-25.
 - Moody’s Economy.com forecasts an employment growth of 3% in 2021, 3.3% in 2022, 1.3% in 2023 then falling to less than 1% per year in 2024-26. Moody’s projects Maryland personal income growth of 5.5% in 2021, 0% in 2022 and then return to greater than 4.0% annually for 2023-26.

Howard County Resident Labor Force

Personal income growth is strongly influenced by the growth of the County's labor force and base of employed residents. As the County's workforce and base of employed residents increases, the earnings of these workers drive County personal income growth and resulting personal income tax revenues. Since 2010, the County has grown more rapidly than the State in both of these measures, with the County's labor force expanding by 14% since 2010 and number of employed residents increasing by 15%, compared to State of Maryland growth of 2% and 4% respectively. While long term growth in the County's resident labor force and base of employed residents has been strong, the County was and continues to be impacted by the ongoing Covid-19 pandemic, with:

- The County's labor force declining by 3.7% in 2020 and by 0.8% in 2021, compared to declines of 3.0% and 1.4% decline statewide; and
- The County's base of employed residents declining by 6.2% in 2020, but growing marginally in 2021, compared to declines of 6.3% and 0.3% respectively statewide.

Over the past decade, growth in the Howard County labor force has outpaced Statewide growth, driven by strong residential development. Howard County has successfully attracted a highly educated, professional and high-income workforce; however, as the County continues to mature and the pace of residential development activity slows, growth in the County's labor force can be expected to slow, negatively impacting County personal income growth and resulting income tax revenue growth.

Chart A-3: Maryland and Howard County Change in Resident Labor Force, 2010-21

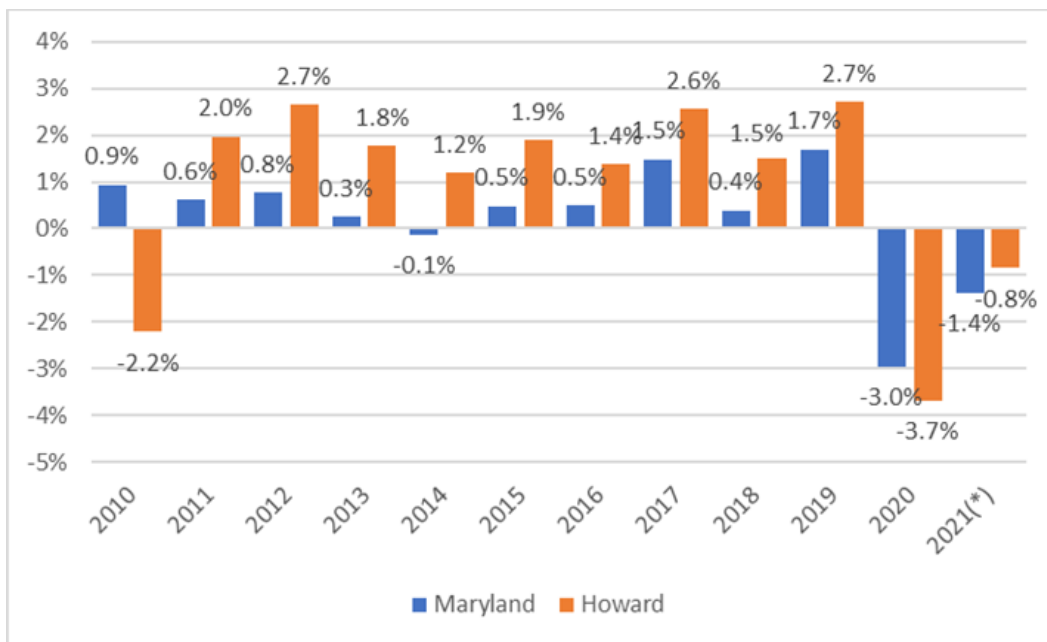
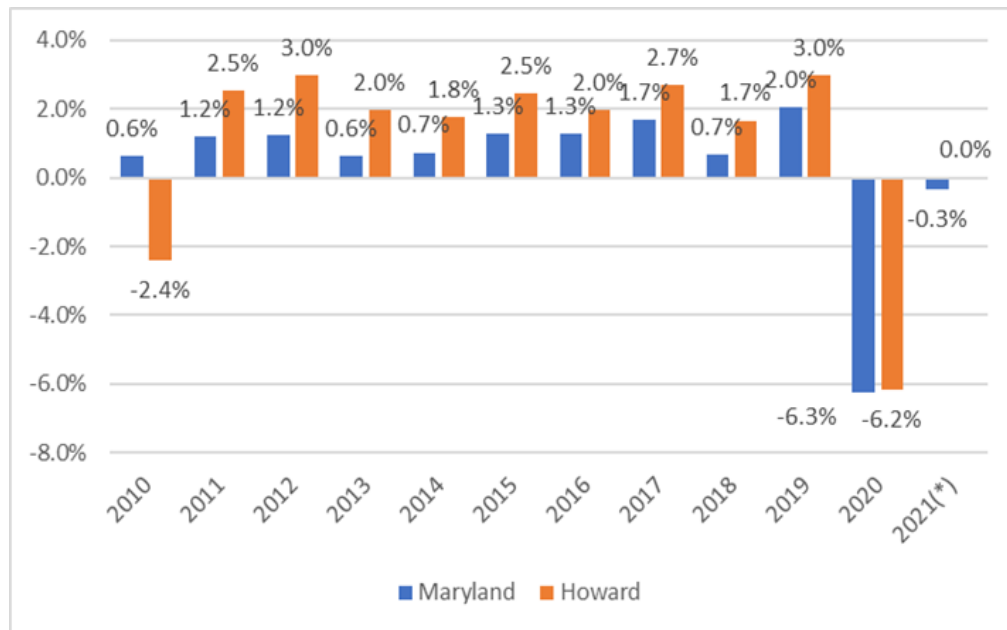


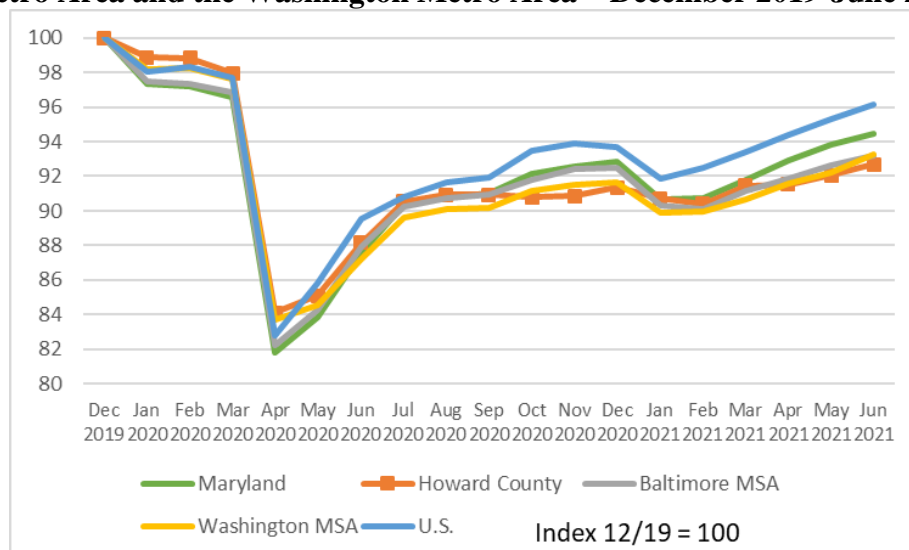
Chart A-4: Maryland and Howard County Change in Employed Residents, 2010-21



Howard County Economy:

While Howard County's economy has experienced strong long-term growth, it was significantly impacted by the recent pandemic-driven economic slowdown. While the County's employment base has outpaced the nation, state and both neighboring metropolitan areas in terms of employment growth since 2010, County employment growth has lagged its comparison regions in the current recovery (Chart A-3). After being one of the fastest growing counties in job growth in 2014-19 (5th highest in job creation and 3rd in growth), the County experienced larger employment declines in 2019-20 and is lagging Maryland and most peer counties in job growth in the first six months of 2021.

Chart A-5: Employment Growth in Howard County Compared to the U.S., Maryland, the Baltimore Metro Area and the Washington Metro Area – December 2019-June 2021



Despite recent pandemic-related declines, the County is expected to return to previous patterns of growth as the nation moves to full employment around 2023. Howard County continues to enjoy a strong base of high and middle skill jobs and offers:

- A strong concentration of employment in the Professional and Technical Services, which is driving the Maryland, Baltimore metropolitan and Washington metropolitan area economies;
- Emerging strengths in corporate offices (Management of Companies);
- A strong Construction and Wholesale sector; and
- A growing manufacturing sector.

The JFI developed its personal income growth projection based on both long-term patterns of growth and the relationship of County to State personal income. Traditionally, Howard County has experienced stronger population growth and attracted higher income residents than Maryland, resulting in stronger personal income growth. However, near term projections were adjusted to reflect the impact of anticipated slower population growth resulting from the impact of policy decisions, such as the Adequate Public Facilities Ordinance, and the increasing share of multifamily housing in the County's development pipeline than can be expected to slow the rate of both population and personal income growth to overall State of Maryland levels. The results of the JFI's personal income projections analysis are as follows:

- On a fiscal year basis, County personal income is projected to grow by 5.9% in FY 2021, 3.2% in FY 2022, and 2.5% in FY 2023, 4.6% in FY 2024, by 4.6% in FY 2025 and by 4.5% in FY 2026
- On a calendar year basis, County personal income is projected to grow by 5.9% in 2021, 0.6% in 2022, 4.4% in 2023, 4.6% in 2024, by 4.6% in 2025 and by 4.5% in 2026.

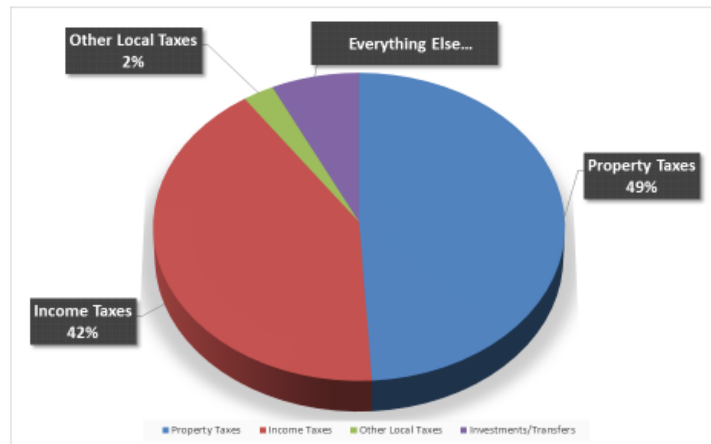
It is important to note that due to the continued national economic risks associated with the ongoing Covid-19 pandemic, continued national political/economic uncertainty, and the emergence of inflation and expected national monetary tightening, a continued caution in expenditure growth is warranted.

2. Revenue Outlook

Howard County's General Fund revenues rely primarily on two sources, property tax (49%) and personal income tax (41%). These two revenue sources have made up approximately 90% of overall revenues over the last few years and the trend will continue into FY 2023. The County forecast for General Fund growth in FY 2023 over the FY 2022 budget is 6.6%; the relatively strong growth is primarily attributed to higher-than-expected and higher-than-historical level revenue performance during the pandemic so far, driven by various temporary factors including federal stimulus measures.

Chart A-6. General Fund Revenue Structure (FY 2022 Budget Excluding One-Time Funds)

Property Taxes and Income Taxes Represent
91% of General Fund Revenues

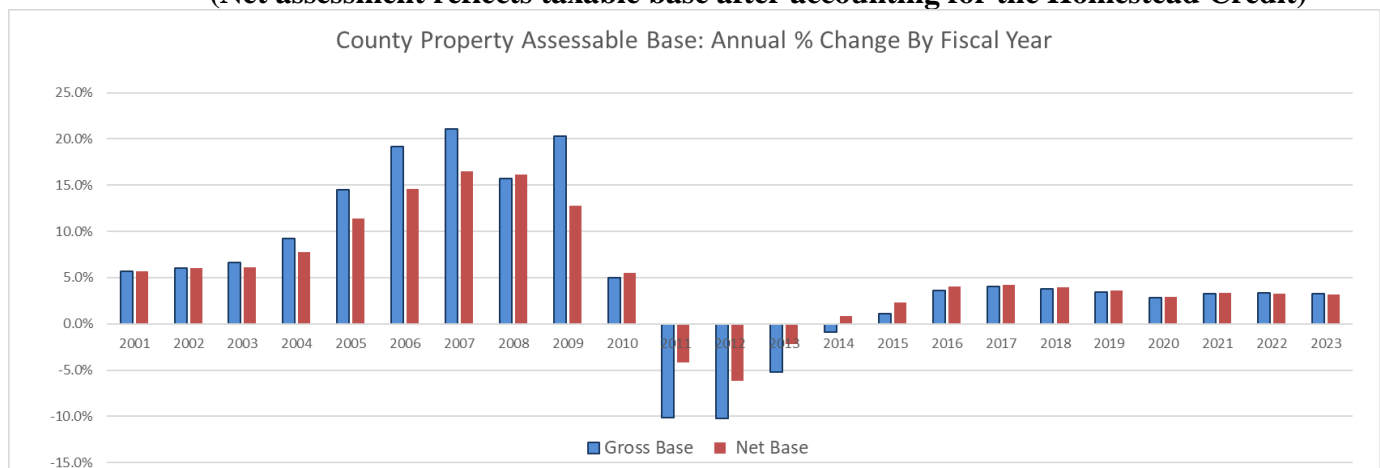


FY 2022 General Fund (not including one time funds)

4

Property tax reassessment value has shown a moderate improvement. The assessable base for FY 2023 is projected to grow at 3.3% over FY 2022, based on the latest estimate from the State Department of Assessments and Taxation reassessment (SDAT). The reassessment of Group 1 in 2022 showed 10.8% full-value growth or an average increase of 3.6% per year over the three-year phase-in. The commercial base, however, showed a weakened full-value growth of 5.7% compared to double-digit growths before the pandemic. In coming years, the assessable base is expected to benefit continuously from the strong housing market due to the State's triennial assessment and phase-in approach but will feel the impact of a weakening commercial market in retail, hotel, and office buildings. In addition, the four-year residential development moratorium, based on more restrictive conditions, is scheduled to take effect in FY 2022. This will likely result in the pause and/or delay of a sizable portion of new development and associated revenues.

**Chart A-7. County Assessable Base Annual Percentage Change History
(Net assessment reflects taxable base after accounting for the Homestead Credit)**



Personal income taxes experienced a surprisingly strong growth of 10.2% in FY 2021, three times the typical or five-year average annual growth of 3.4% in actual receipts before the pandemic and doubling the personal income growth in this period. This abnormal spike during the pandemic was primarily fueled by rapid issuance of pandemic-related payments and other significant federal stimulus packages, especially the increased and expanded taxable unemployment insurance eligibility and coverage, and also benefited from the very strong stock markets. The elevation of base partially improved the base and will likely result in a relatively strong budget-to-budget growth in FY 2023. However, the bump in the growth of tax receipts so far are temporary by nature. Such a boom is not a true reflection of economic reality and expected to be short-lived. The severe job loss experienced during the pandemic has shown some improvement but employment remains below the pandemic level. In addition, some corrections or adjustments could impact Income Tax distributions in 2022 - 2023 due to the lagged impact such as tax refund for withheld in unemployment insurance performed earlier than later the Governor announced to be exempted from both State and local income taxes. The economic outlook features uncertainties contingent on multiple factors, including the pandemic, economic recovery, and federal and State policies. This, combined with a highly distorted revenue performance delinked from the economic base, makes it very difficult to anticipate the actual performance in Income Tax in the near future before it goes back to match historical trends and stays closer to the performance of personal income.

Other revenues, overall, are projected to experience continued recovery from the negative impact experienced during the pandemic. Some revenues, such as Hotel/Motel Tax and Admission and Amusement Taxes, suffered significant losses in this period and are still not expected to fully recover in the foreseeable future. Recordation tax, however, has shown a strong growth so far thanks to a hot housing market. It will likely show a moderate softening in FY 2023 due to inventory constraint and also potential impact of the anticipated upward adjustments of interest rates including mortgages.

3. Debt Indicators

The Committee relies on established measures used and published by Moody's Investor Service and in International City/County Management Association publications to assess the County's relative debt position. The following four (4) specific measures have been used to evaluate the County's debt burden and debt affordability:

- Debt measured as a percentage of the County's assessable base. The current County charter limit is set at 4.8% of the assessed value.
- Debt measured against the population on a per capita basis. Per capita debt exceeding \$1,200 (unadjusted for inflation over the past 10 years) may be considered excessive by rating agencies.
- Per capita debt measured as a percentage of the jurisdiction's per capita personal income. This measure should not exceed 10% in the view of many analysts.
- Debt Service as a percentage of current revenues. This is the most important debt indicator among the four listed. Anything below the County's 10% policy ceiling, is considered an appropriate level, with 15% and above regarded as dangerous and unsustainable.

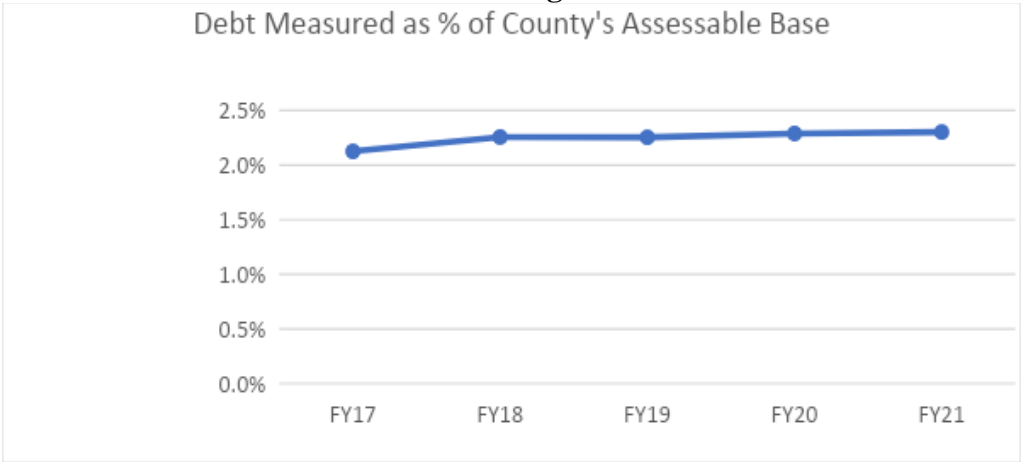
The Committee is concerned that all four (4) measures of debt burden have been increasing in the past several years until recently. In particular, debt service as a percentage of revenues exceeded the County policy ceiling of 10% for the first time in FY 2020 and is expected to continue to increase. The Committee recommends that the County monitor its debt level closely and commit to keeping new debt in coming years at historical low level continuously to avoid escalating long-term liabilities and leaving an ever-shrinking share of the operating budget available to support all other services of the County.

The latest values of these four (4) debt indicators are listed below.

Measure #1: Debt as a Percentage of the Assessable Base

As of June 30, 2021, the ratio of debt to assessable base was **2.3%** of assessed value vs. the 4.8% limit. Preliminary projections indicate that this measure will remain relatively constant in coming years.

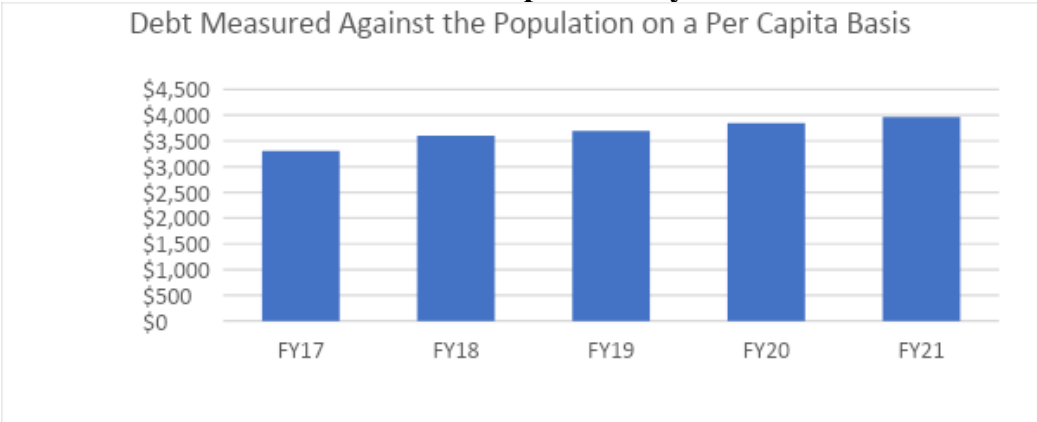
Chart A-8. Debt as a Percentage of the Assessable Base



Measure #2: Debt measured against the population on a per-capita basis.

As of June 30, 2021, Howard County had a per-capita debt of **\$3,967**, slightly higher than previous year.

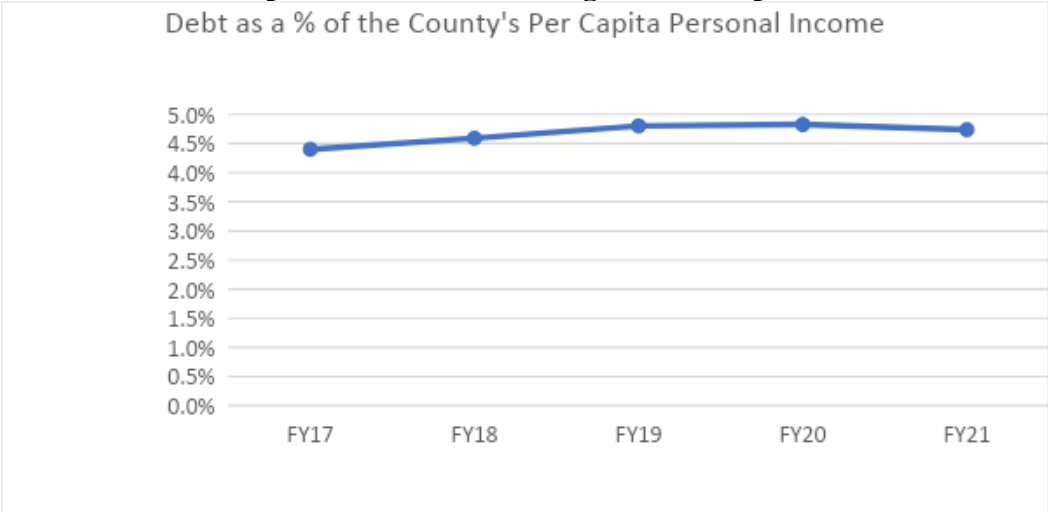
Chart A-9. Per-capita County Debt



Measure #3: Per-capita debt measured as a percentage of per-capita income.

As of June 30, 2021, Howard County residents had an estimated per-capita debt of **4.7%** of per-capita income.

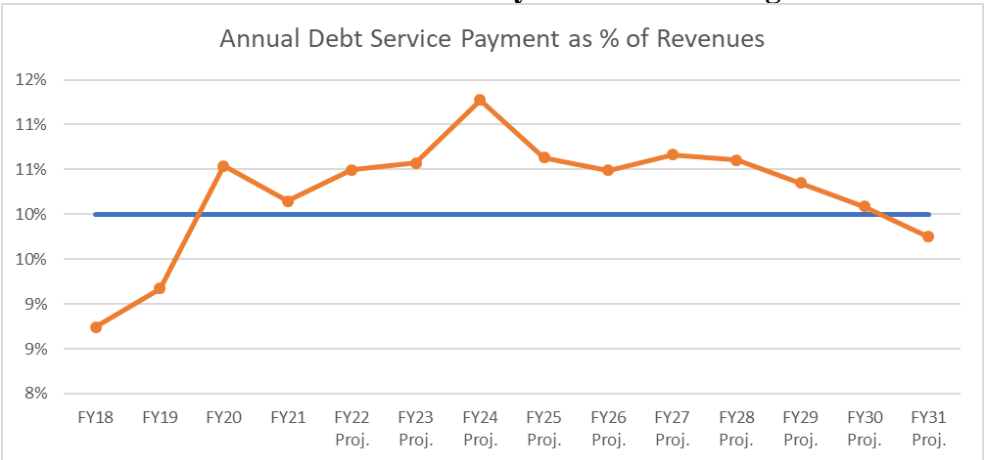
Chart A-10. Per-capita Debt as a Percentage of Per-Capita Personal Income



Measure #4: Debt Service as a percentage of current revenues.

In FY 2021, County debt service payment equaled **10.1%** of total revenues. This debt indicator is the most important measure of the four utilized for County operating budget and long-term planning. It indicates not only debt burden and debt affordability, but also the ability of the operating budget to support all other service needs (after the required dedication of resources to debt obligations). This indicator exceeded the County’s 10% policy ceiling in FY 2020 and is expected to stay above 10% in FY 2022 – FY 2030. After that point, this indicator is expected to drop below 10%. Although 10% is a self-imposed County policy ceiling and exceeding it temporarily is not predicted to cause an immediate change in County credit ratings, it is worth noting that 10% is a policy ceiling commonly adopted by governments to manage and control the impact of the debt burden on the operating budget. The Committee encourages the County to closely monitor this indicator and avoid having it rise much higher and/or remain above the policy ceiling for too long.

Chart A-11. Annual Debt Service Payment as Percentage of Revenues



Note: Projections assume a 4.5% interest rate, authorization of \$75-\$90 million in new GO bonds per year in out years, based on historical levels, \$75 million WIFIA loan, and the impact of outstanding previously authorized bonds issued through FY 2027.

4. Multi-Year Projections

The County's budget office developed multi-year projections based on historical trends and anticipated drivers of revenue growth and expenditures. Absent actions each year to reconcile expenditures with resources available, preliminary projections indicate the County will continue to see a deficit between its projected revenues and requested expenditures, with the annual gap predicted to increase from \$121 million in FY 2023 to \$288 million in FY 2028 absent corrective actions.

**Chart A-12. Preliminary Multi-Year General Fund Projections
(Before Corrective Actions to Balance Revenues and Expenditures)**

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Six-Year Growth
	Budget	Projected	Projected	Projected	Projected	Projected	Projected	from FY22 Base
Revenue	1201.4	1281.2	1325.4	1371	1416.3	1463.2	1511.7	310.3
Growth %		6.6%	3.4%	3.4%	3.3%	3.3%	3.3%	
Expenditure	1201.4	1402	1491.5	1574.6	1655.8	1728.2	1799.5	598.1
Growth %		16.7%	6.4%	5.6%	5.2%	4.4%	4.1%	5.1%
Gap	-	(120.8)	(166.1)	(203.6)	(239.5)	(265.0)	(287.8)	
Accumulative Gap	-	(120.8)	(286.9)	(369.7)	(443.1)	(504.5)	(552.8)	

County revenue projections rely primarily on the performance of property and income taxes. Property tax receipts will likely maintain a gradual increase due to the triennial reassessment cycle which spreads the impact of changes over time, and the gradual build-out of the County coupled with the impact of regulatory changes that will further reduce or defer new development. Historically volatile income tax revenues will likely experience some recovery as employment levels return to pre-pandemic levels in future years. These gains, however, will be partially offset by the cessation of one-time federal stimulus payments, which have created an artificial increase in revenues already received in FY 2021 and, potentially, into FY 2022. In addition, a slowdown in population growth due to diminishing developable land and less new development will likely drag down personal income tax receipts, which have historically benefited from both wage growth and population growth in the County.

Revenue forecasts for the next several years will feature significant uncertainties due to critical factors such as the length and impact of the pandemic and federal, State, and local policies. The Committee recommends that the County develop long-term plans based on lower than projected General Fund revenue growth to account for various unknowns in out years.

Chart A-13. Preliminary Multi-Year General Fund Revenue Projections

	Budget	Projected	Projected	Projected	Projected	Projected	Projected	Avg. %
Property Taxes	600.9	622.0	642.9	664.1	684.0	704.6	725.7	3.1%
Income Tax	492.3	535.2	556.6	578.9	602.0	626.1	651.2	4.0%
Other local taxes	25.4	39.2	40.0	40.8	41.6	42.4	43.3	2.0%
State Shared Taxes	3.7	3.9	4.0	4.0	4.1	4.2	4.3	2.0%
Charges / Permits / Intergov.	29.4	32.8	32.7	33.0	33.2	33.5	33.8	0.6%
Interfund transfers /Recoveries	49.6	48.1	49.2	50.2	51.3	52.4	53.5	2.1%
Total Revenues (Excluding One-Time)	1,201.4	1,281.2	1,325.4	1,371.0	1,416.3	1,463.2	1,511.7	3.4%

On the expenditure side, total projected requests, incorporating input from all departments and agencies including education entities, continue to exceed projected revenues in this period before any corrective action. Major cost drivers include rising requests from education entities, compensation and fringe benefit costs for all employees and retirees, increasing debt service payments to finance education and infrastructure projects, new operating and maintenance costs for completed capital projects, and various needs of the community - especially given the impact from the pandemic and economic downturn. The County will have limited flexibility in new resources available, after fulfilling known commitments such as State-mandated annual MOE funding growth to HCPSS, the growing debt service payments to fund infrastructure projects, and payments to address liabilities in retiree health benefits for employees of both education entities and the County government.

The County is required by law to adopt a balanced budget each year. Trying to prioritize needs vs. wants in evaluating all competing requests while staying within means will remain a challenge for decision-makers in the next several years.

For illustration purposes, the following is one of the many possible scenarios that would balance revenues and expenditures in the next six years:

Chart A-14. Expenditure Projection – Balanced Scenarios to Match Revenue Projection

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY24-28
	Budget	Projected	Projected	Projected	Projected	Projected	Projected	Avg. %
Debt Service Payment	125.6	141.8	147.8	153.8	159.8	165.8	171.8	3.9%
Other Post-Employment Benefit	11.0	14.0	17.0	20.0	23.0	26.0	29.0	15.7%
Education-HCPSS-Direct Appropriation	628.3	661.7	682.4	703.9	725.3	747.6	770.8	3.1%
Education-HCC-Direct Appropriation	37.5	39.5	40.7	42.0	43.3	44.6	46.0	3.1%
Education-HCLS-Direct Appropriation	22.4	23.6	24.3	25.1	25.9	26.7	27.5	3.1%
Public Safety	146.4	158.2	163.1	168.3	173.4	178.7	184.3	3.1%
Public Facilities	88.0	92.7	95.6	98.6	101.6	104.7	108.0	3.1%
Community Services	75.5	79.5	82.0	84.6	87.2	89.8	92.6	3.1%
General Government	31.4	33.1	34.1	35.2	36.2	37.4	38.5	3.1%
Legislative & Judicial	32.0	33.7	34.8	35.9	36.9	38.1	39.3	3.1%
Other (Non-Departmental)	3.3	3.5	3.6	3.7	3.8	3.9	4.0	3.1%
Total Expenditures (Excluding One-Time)	1,201.4	1,281.2	1,325.4	1,371.0	1,416.3	1,463.2	1,511.7	3.4%

As in all models, the multi-year projection scenarios listed are based on a set of assumptions that could change when new information becomes available. The models were intended to identify long-term trends, inform budget development, and provide opportunities to take proactive actions and explore options to achieve a sustainable budget in the long run. They do not represent official fiscal plans. Both operating and CIP budgets are developed on an annual basis subject to the annual budget review and approval process.

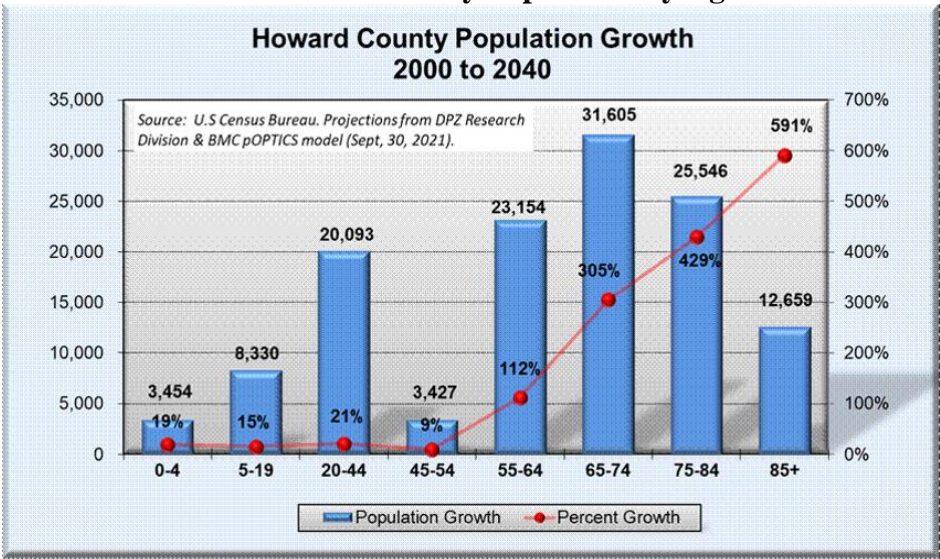
5. Demographic and economic development trends

The County Department of Planning and Zoning's presentation on key demographic and economic trends continues to emphasize the concerns that the Committee has voiced over the last few years regarding their long-term impact. These trends will have a significant effect on the County's near- and long-term fiscal condition and should inform the development of the operating and capital budgets to allow for proactive actions to address and cope with changing needs and/or priorities.

The County's population has been aging rapidly with the population over the age of 55+ predicted to more

than double over the next two decades. An aging population requires careful planning to ensure incorporating both reduced revenue impact and increased service needs into the County’s long-term fiscal planning.

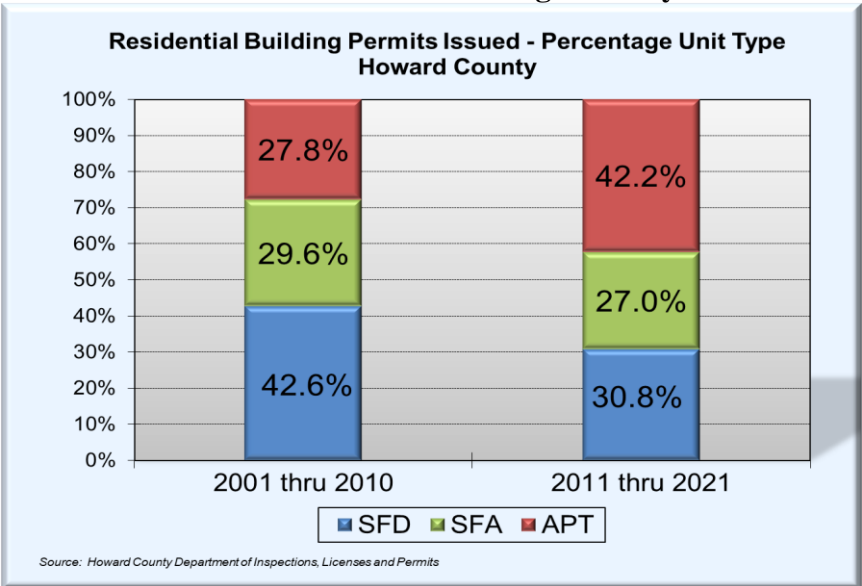
Chart A-15. County Population by Age



Source: US Census Bureau, DPZ & MDP cohort model

Another land-use trend the Committee noted is the continued shift of planned development activity from single- to multi-family housing. The main factor contributing to this shift is the limited amount of available land for single-family detached residential development and the current development policies and the resulting zoning in the Columbia Village Centers and the Route 1 and Route 40 corridors.

Chart A-16. Residential Permits Issued – A Shift from Single Family Detached to Multi-Family Units



Note: SFD – Single Family Detached; SFA – Single Family Attached; APT- Apartment

One more issue observed over the last few years is a continued drop to historically low level in new building permits issued and new units proposed in pre-submission community meetings, with some recoveries starting in the 2nd half of 2021. This may impact not only current-year revenues but also the various revenues

associated with new development and the associated permits and fees in FY 2023 and beyond. Since the development process typically takes two to three years to complete, the impact on the County’s budget could be delayed and not reflected until a few years out.

Chart A-17. Residential Building Permits Issued in 2001 -2021

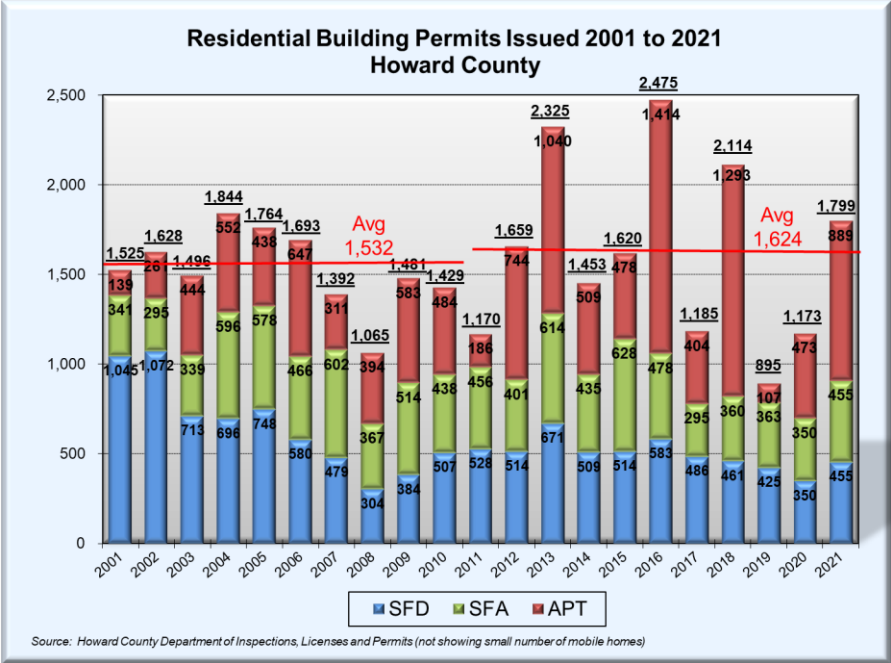
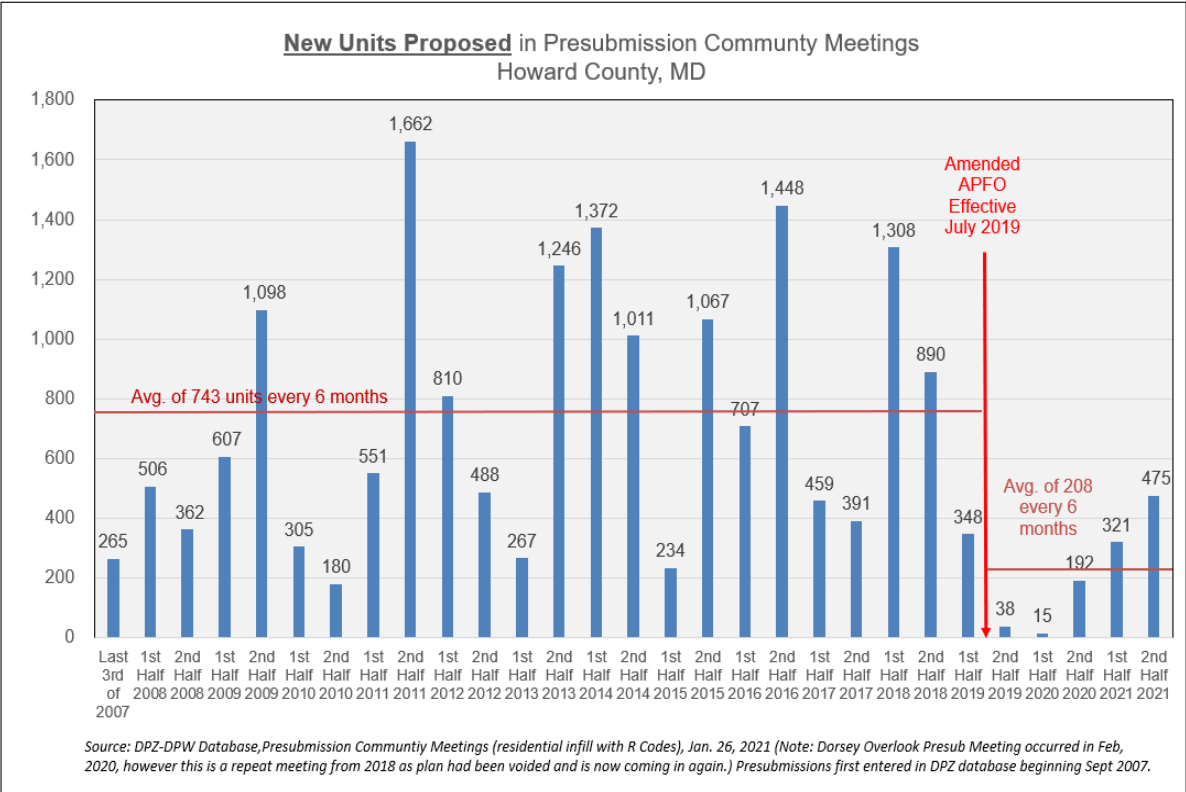


Chart A-18. Leading Indicator - New Units Proposed in Pre-submission Community Meetings



(SFD – Single Family Detached; SFA – Single Family Attached; APT- Apartment)